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International Economic Development Council

UNLOCKING ENTREPRENEURSHIP:

A Primer for Economic Developers

International Economic Development Council

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Introduction

In an increasingly competitive global marketplace, the capacity of a community's entrepreneurial firms will be the driving force behind economic recovery, job creation, greater resiliency in the face of disasters, and regional economic transformation. For economic developers charged with job and wealth creation in their communities, the significance of entrepreneurship requires them to adapt their practice to focus on access to tools, strategies, networks and institutions that support entrepreneurial firms.

Thus, the International Economic Development Council, under the guidance of its Economic Development Research Partners (EDRP) Program, is developing a Handbook on Entrepreneurship, to:

- Introduce the economic development professional to the increasingly urgent need to support entrepreneurship as a necessary strategy;
- Explain what entrepreneurship is and who entrepreneurs are;
- Elucidate ways to best support entrepreneurship in the community; and
- Provide tools to help economic development professionals strengthen their communities' entrepreneurship culture and build vibrant, resilient economies.

This Primer, the first part of the Handbook, provides an overview of the entrepreneurship ecosystem. The first chapter examines the forces that have led to the growing importance of entrepreneurship as a mechanism for sustained economic well being and discusses why entrepreneurs are best positioned for success in a rapidly changing business environment. Chapter 2 explores entrepreneurs by type of business, as well as demographics. The last chapter in the Primer examines and maps out the various components of the entrepreneurial ecosystem.

The remainder of the Handbook will provide detailed guidance to economic developers on successful strategies for promoting entrepreneurial activity in their communities. It includes details on the components of building an entrepreneurial ecosystem; case study examples of entrepreneurial firms, as well as economic development programs and organizations that support those firms; and tools that can be utilized by economic development professionals to foster entrepreneurial growth in their communities.

CHAPTER I
The Rise of the Entrepreneurial Economy

To better understand the role of entrepreneurship in economic growth, it is essential to take a deeper look at where job creation happens. Year-to-year net job creation comes from three primary sources: start-ups, young entrepreneurial firms ages one to five years, and high-impact, established companies. According to research conducted by the Ewing Marion Kauffman Foundation, virtually all net job creation between 1980 and 2005 took place in start-ups and young firms.[1] In fact, Kauffman notes that young firms (between one and five years old) account for approximately two-thirds of new employment annually and become critically important in terms of lifetime net job creation. In addition, the rate of net growth attributed to young firms has remained nearly constant over the last 25 years. Even in the current economic downturn, nearly two-thirds of all net job creation in 2007 occurred in young firms.[2] Equally important, studies show that almost all job losses in the economy can be attributed to firms with over 500 employees[3]. Thus, if not for these entrepreneurial companies, our economy would have experienced net job loss over the past decades.

Growth within existing companies, not just new small businesses, also generates job increases and contributes to a robust economy. Take for example high-impact firms, first described as *gazelles* by David Birch, and later by Acs, Parsons and Tracy in 2008.[4] High-impact firms are defined as enterprises that double sales and employment growth over a four-year period. The Acs, Parsons and Tracy study found that high-impact firms are on average 25 years old and account for a significant percentage of private-sector employment and revenue growth in the U.S. economy. While we do not definitively know what triggers an existing company into a high-impact growth spurt, it is clear the firm is moving into a new, entrepreneurial stage.

Entrepreneurship, regardless of its source, ultimately creates jobs and wealth. A venture creates wealth by increasing operational efficiencies, expanding consumer choice and reducing costs. Broadly speaking,

1 Kauffman Foundation Research Series: Firm Formation and Economic Growth Where Will the Jobs Come From? November 2009, http://www.kauffman.org/uploadedFiles/where_will_the_jobs_come_from.pdf

2 ibid

3 Acs, Parson and Tracy. High-Impact Firms: Gazelles Revisited. SBA Office for Advocacy. Washington DC, June 2008. http://www.sba.gov/advo/research/rs328tot.pdf

4 ibid

entrepreneurship is the establishment of any new business or the development of a product, process or service, regardless of the founder's motivation, industry, venture type or the age of the establishment. Contrary to the stereotype of an entrepreneur as "a hero with special powers that…innovates, creates jobs, makes markets more competitive and enhances economic growth," entrepreneurship is in reality a "very common activity, undertaken by many people at some time during their lives."[5] The Kauffman Center for Entrepreneurial Leadership describes entrepreneurs as "generative and self-renewing," since they not only provide engines for innovation but also smooth exigencies in the business cycle.[6]

Entrepreneurship has many positive impacts on a community. Most commonly, entrepreneurs:

- ***Create diversity within the immediate business environment and up the value chain.*** A diverse economy enables a community to withstand stagnation due to constantly changing markets and consumer demands. This is particularly important in a globalized world where demands shift rapidly, forcing businesses to innovate simply to remain competitive.
- ***Drive efficiency gains as they challenge existing businesses and industries or create new ones***. Those that succeed alter the business climate with operations that are less resource-draining and ultimately more profitable.
- ***Give a community a vehicle through which it can leverage existing strengths,*** such as a local university, skilled labor force or unique amenities, to optimize economic gains and create wealth.

5 Shane, Scott A (2008). The Illusions of Entrepreneurship: The Costly Myths That Entrepreneurs, Investors, and Policy Makers Live By. Yale University Press

6 Schramm C (2004). Building Entrepreneurial Economies. Foreign Affairs 83(4) (July/August)

Economic Restructuring: From the Industrial to the Knowledge Economy

The late twentieth century saw a significant change in the structure of the economy worldwide. Resources once were the primary input to production, making price the key factor of competition in markets. But the cumulative forces of globalization, rapid technological change, and shortened product and process cycles have made knowledge the essential input to, and innovation the critical driver of, competitiveness. The following characteristics of the knowledge economy highlight the accelerated importance of entrepreneurship as an economic development engine.

- ***Globalization***—The integration of communities and nations into a global marketplace, expanding the overall size of the market, increases competition and fuels greater mobility of people, businesses, ideas and capital. The size and scope of the global market creates significant entrepreneurial opportunities for new products, services, companies and niche markets.

- ***International business climate*** – Globalization has changed the business climate in significant ways. Businesses need to be flexible and nimble to respond to rapidly changing consumer demands, and gain or maintain market share. This flexibility is the mark of an entrepreneurial company. But at the same time, businesses need to be organized differently than in the past, so that they can fully exploit the opportunities offered by globalization. For example, a firm can now establish its headquarters in the United States, its advertising/marketing department in France, the accounting group in Japan, its manufacturing plant in India, and retail locations entirely on the Internet. This reorganization opens up opportunities for existing firms not only to tap into new supply chains, but to enter the global market in new ways.

- ***Information & Communication Technology (ICT) advancements*** – Innovation and expansion in electronic communication (World Wide Web, electronic mail, satellite-based communications, hand-held GPS and smart phones) is driving greater total production capacity, knowledge transfer rates and instantaneous communication worldwide. Equally important, IT advancements create significant opportunities for entrepreneurs along two key dimensions. First, IT lets anyone anywhere to connect to the global marketplace, giving even a solo craftsman the ability to market widely. Second, IT enables entrepreneurs to tap into long-tail markets. In a long-tail market strategy, an entrepreneur sells a small number of unique items to many customers. The most obvious example of this strategy is Amazon, which provides access to almost any book title that may not be available in a retail store (which typically caters to more popular titles). Amazon can support this strategy because it aggregates the small demand for a particular item and creates sufficient market size by spanning geographies online.

- ***Higher capital mobility*** – Due to IT advancements and emergence of a globally connected financial infrastructure, local firms can attract investments from international resources. Similarly, capital sources can seek out investment opportunities worldwide regardless of location. This rapid movement of capital can lead to a less stable environment for communities, especially those that rely on large firms in few industries that may become vulnerable to global competition. This economic reality has made investing in local entrepreneurs in a wider variety of industries a more reliable and more rewarding economic strategy for many communities.

- ***Changing importance of physical location*** – The ability of businesses to coordinate functions and operate virtually via the Internet is changing the significance of place. While it is no longer necessary to be in a market to sell to that market, places must maintain the ability to attract and retain talent and innovation. Places that offer a high quality of life and support diversity and knowledge creation in new and interesting ways stimulate and support entrepreneurship.

- ***More informed and more demanding consumers*** – Consumer preferences are changing rapidly, with an immediate feedback loop to firms due in large part to online networks and communities. This can have dramatic effects, positive and negative, and increases the pressure on businesses to innovate and maintain product quality. It also opens up new spaces for entrepreneurs to meet more nuanced demands as they often can respond more rapidly to small demand changes and enter niche markets faster and more easily than larger firms with entrenched markets can.

Changing Approaches to Economic Development: A Note on Economic Gardening

Many states and communities across the country and the world have started to incorporate entrepreneurship promotion as a core economic development strategy. Of particular note has been the emergence of economic gardening.

Economic gardening refers to growing jobs in the community through entrepreneurial activity, as opposed to recruiting them by attracting industry. It was developed as an alternative to traditional economic development strategy, although many communities use it alongside other strategies.

The term "economic gardening" was coined in Littleton, Colorado, in the late 1980s by the City of Littleton's Business Affairs department, working in conjunction with the Center for the New West, and is characterized by investment in homegrown, innovative, knowledge-based companies that create wealth and jobs in the community. Economic gardening may produce job growth slowly and incrementally at first. The jobs may accrue – especially initially – to higher-educated, higher-skilled innovators (though education level does not always correlate to this). But in the longer run, through the addition of more and more small start-ups and some second-stage companies and gazelles, job growth can be significant and can result in employment opportunities for people at various skill and education levels. Some communities, like Littleton, pursue economic gardening as their main economic development strategy; others pursue it in conjunction with business attraction and other traditional economic development tools. In either case, it is rapidly becoming an important economic development strategy.

In sum, this restructuring of business worldwide presents challenges and opportunities that are creating economic winners and losers different from those of the past. Entrepreneurship can create value at both ends of the spectrum – exploiting the disruptive environment of globalization on one hand, and providing services locally that people need on the other.

The hallmarks of small businesses – such as flexibility and agility – combined with continued innovation, allow entrepreneurs to respond quickly to changing consumer demands and address niche markets that are too small or specialized for large firms to serve cost-effectively. Further, entrepreneurial firms of all sizes provide much of the innovation that can be incorporated into larger firms' value chains, and encourage larger firms to stay on the cutting-edge of efficient business operation and production.

Regional economic growth spurred by entrepreneurship is additive. Instead of redistributing existing economic activity by shifting enterprises to one location at the expense of another, entrepreneurial ventures bring entirely new products, services or production methods to market, generating new wealth. Thus, growing and maintaining community prosperity against the backdrop of the dynamic global economy relies upon the creation of a healthy entrepreneurial support environment.

What is more, as existing industries reach maximum output, employment growth is stunted as a result of natural growth limits. Homegrown, wealth-generating ideas add diversity to an economy that can help insulate it from the instability associated with large, globally integrated enterprises that operate detached from communities, in addition to providing an outlet for stranded talent that in turn produces quality jobs and increased taxable wealth for communities.

A Jobless Recovery for Established Firms

American companies have shed almost 8 million jobs since 2007 and current signs point to a tenuous recovery. On the surface, it would appear that increased corporate profits, rising stock prices, and increased capital investment bode well for future employment growth. But the dramatic increase in productivity is the most telling statistic of all. It provides the foundation for all the other increases and suggests that employment growth will be more elusive. Firms are using nominal interest rates of 0% and increased income from equity value appreciation to finance long-term capital investment. This investment will continue to improve corporate profitability and efficiency, but it will also reduce the need for additional employment, even after aggregate demand returns. Rather, job creation will be driven by entrepreneurs and entrepreneurial companies.

This means that economic development practitioners need to focus on creating new firms - not relying solely on existing firms for job growth and wealth creation. The increase in firm and talent mobility has created, and will continue to create, challenges for economic development professionals. However, opportunities will be abundant for the creation of new firms to absorb displaced workers.

The remainder of the Handbook examines the phenomenon of entrepreneurship and how economic developers can unlock this force to create sustainable, transformative change within their communities.

CHAPTER II
Who are the Entrepreneurs?

The discussion of fostering entrepreneurship as an economic development force in a community needs to begin with an understanding of this target market – who are the entrepreneurs? This is a critical first step because different types of entrepreneurs require differentiated services and levels of support, and make different contributions to economic development. The first important distinction is by the type of businesses that they run. The second section examines entrepreneurs by demographics such as age, race, education, immigration and gender, to identify underrepresented groups and understand how to stimulate entrepreneurship across all segments of the population.

Entrepreneurs by Types of Business

Entrepreneurship can take many forms, all of which can add value to the regional economy. The value that entrepreneurs contribute varies based on the economic and cultural environment of a community and the nature of the business. Entrepreneurs can be classified in several ways, depending on their motivation, timeline, venture types, industry and investor perspective. However, whether a business drives wealth creation and employment typically depends on an entrepreneur's motivation. The literature contains several different typologies for defining entrepreneurs; for the purposes of this document, the most useful distinction is that between "lifestyle" and "growth" entrepreneurs.

Lifestyle Entrepreneurs

Lifestyle entrepreneurs typically start their own businesses for the lifestyle of self-employment, rather than aspirations to found the next Google. Generally speaking, these are individuals who prefer to "be their own boss" and enjoy the advantages of working for themselves. They may open businesses to provide products or services that they are passionate about or just as a means for employment and income. Examples of lifestyle ventures include most retail and localized service providers such as dry-cleaners or accountants. Typical mom-and-pop stores, chain franchises and independent consultants fall into this category as well. It can also include innovative products or services that may not currently be offered in the marketplace.

Lifestyle entrepreneurship is not restricted to a particular sector; rather, it denotes business owners who are not seeking rapid growth. Lifestyle entrepreneurs typically open businesses in areas where there will be a demand for their products and services. This can be areas that are experiencing population growth to drive demand as well as underserved areas for specific products and services. They tend to stay small and traditionally, don't export their products or services outside the boundaries of their primary market. However, given the ICT advancements discussed earlier, that is rapidly changing now to include global markets, especially for those lifestyle entrepreneurs that conduct a majority of their business online.

Small businesses of this nature make a major contribution to the economy, and should not be discounted because of their individual employment numbers or replicative nature (providing a service or product that already exists, though it may be in a new way or an underserved location). Lifestyle entrepreneurs can contribute to a local economy in the following ways:

- Provide essential services and new amenities to fill unmet demands for the local/regional population
- Drive managerial and operational efficiencies within existing industries that result in reduced prices for consumers
- Create new jobs and provide a path for productive contribution to regional economies through self-employment
- Increase individual incomes and grow community wealth
- Attract revenue from outside the community
- Create vibrant neighborhoods

Growth Entrepreneurs

By contrast, growth entrepreneurs start enterprises with the explicit goal of expanding their business to reach maximum market potential. Growth entrepreneurs differ from other small business owners in their motivation by innate curiosity, creativity and/or money, and their application of innovation, whether in process, product or in the provision of services. Growth entrepreneurs take existing ideas and modify them to reach existing or new markets, or develop entirely new ideas for those markets. Innovative entrepreneurship can take place at the initial stages of start-up or within an established business.

Those driven by the need to innovate, such as scientists, may not be interested in starting a business initially. Individuals or firms motivated by growth look to maximize the commercial applications of their idea to the fullest extent. Typically annual returns of 20 percent or more are sought.

It is useful to subdivide growth entrepreneurs into the following three categories, as each type needs a particular kind of support and resources.

- ***Start-ups:*** Start-ups are businesses where growth and innovation drives the formation of the new venture. Typically, the founder develops and commercializes an idea as the primary purpose for starting the business. Start-ups may or may not have a business plan or management team in place, and can require help with these issues as well as accessing seed capital for prototyping, start-up costs, etc.

- ***Second-stage companies:*** Second-stage innovation occurs when an existing business, usually young (ages one to five), exploits a new idea that results in transformative change, altering how the business operates, the products and services offered or its methods of production. The Edward Lowe Foundation describes second-stage companies as "those that have grown past the start-up stage but have not grown to maturity. They have enough employees to exceed the comfortable control span of one owner/CEO and benefit from adding professional managers, but they do not yet have a full-scale professional management team."

- ***Gazelles or high-impact:*** Gazelles, defined earlier in this manual as firms whose profits and employment numbers double over a four-year period, are the basis for nearly all net new employment in the U.S. Such firms often emerge in business-to-business markets (usually deregulated or newly emerging industries) where they can capitalize on niche opportunities. Gazelles are often existing companies that experience a rapid stage of expansion. They are usually small-or medium-sized companies with an average age of 25 years.

Growth entrepreneurs add value to local economies in the following ways:

- Increase productivity levels within existing industries by introducing new operation or production methods and technologies
- Rapid and significant job and profit generation
- Generate greater firm profits that create wealth and increase a community's standard of living
- Push regions that have reached the technological frontier, where replicative/lifestyle entrepreneurship can no longer contribute

to increased GDP, toward continued economic growth

- Offer unique products or services that capitalize on unmet or unforeseen demands
- Remain nimble enough to quickly respond to changes in the global market
- Attract investment capital from outside the region because of their export-related nature

It is important to note that while not all entrepreneurs start out with expectations for rapid expansion, a business can shift from no growth to high growth if the opportunities arise. In many cases of rapid expansion, the innovation that sparks firm growth occurs decades into a firm's existence. The example of Jelly Belly illustrates this concept. For years, the business was a small, family-owned candy maker, but the succession to leadership of a new generation – with revamped management strategies and a partnership with a novel candy chemist – sparked a major overhaul. Ultimately, the new products and processes that resulted from this transformation were the foundation of a worldwide expansion (the complete case study will be released as part of the full Handbook). This example illustrates that growth and innovation can occur from what appears to be an unlikely source.

Understanding the different needs of lifestyle and growth entrepreneurs will enable economic development professionals to work towards providing the different resources necessary for promoting entrepreneurship. All entrepreneurs need networking opportunities, access to capital, supportive tax policies, the ability to access human and physical resources, and legal frameworks that reduce barriers to entry. While these are essentially the same needs that all businesses have, there are distinct differences between the types of public policies required by lifestyle and growth entrepreneurs. Differences in management skills; accessibility and amount of start-up and working capital; real estate needs; and access to markets all represent areas that economic developers can work on to support all types of entrepreneurship.

It is equally important for economic developers to be cognizant of the fact that not all businesses in a community will fit into these distinct categories. Assistance to these businesses will be varied by type of business, industry sectors, location and the specific needs that they have at a particular point in time.

Entrepreneurs by Demographics

Demographic analyses show that certain population groups have higher likelihoods of starting businesses than others. Below are some key observations about overall entrepreneurial activity in the country. Please note that these represent the overall level of business creation as opposed to business ownership in the country.

- While men are more likely than women to start a new business, according to the Global Entrepreneurship Monitor's latest research, the rate of increase in entrepreneurship is much higher among women (22 percent increase between 2007 and 2008). Entrepreneurship rates among men actually decreased slightly (9 percent) during the same time period[7].
- Immigrant populations are almost twice as likely to start a business as native-born in the U.S. (on an average, 510 out of 100,000 immigrant adults as compared to 300 out of 100,000 native-born adults created new businesses each month or 0.51 percent compared to 0.30 percent).[8]
- Business creation rates are typically lowest among the youngest age group (20-34 years). It is the highest in the 34-44 age group.[9]
- The construction industry continues to have the highest number of business startups as compared to all other industries, followed by services.[10]

The discussion below provides additional information about entrepreneurship by these demographic characteristics.

Age

Entrepreneurs tend to be middle-aged (with an average and median age of 40 years) when they start their first company.[11] The age group of 55-64 has had the highest rate of entrepreneurial activity for the past decade, while the age group of 20-34 has had the lowest rate (the publicity young entrepreneurs received through the dot-com boom gave the perception that this age group has high rates of dynamic entrepreneurs,[12] especially in high-tech companies). In fact, a Kauffman study found that

7 Global Entrepreneurship Monitor, What Entrepreneurs Are Up To: 2008 National Entrepreneurial Assessment for the United States of America, http://www3.babson.edu/ESHIP/research-publications/upload/GEM_2008_US_Executive_Report.pdf

8 Kauffman Foundation, Kauffman Index of Entrepreneurial Activity: 1996 – 2009, http://www.kauffman.org/uploadedfiles/kiea_2010_report.pdf

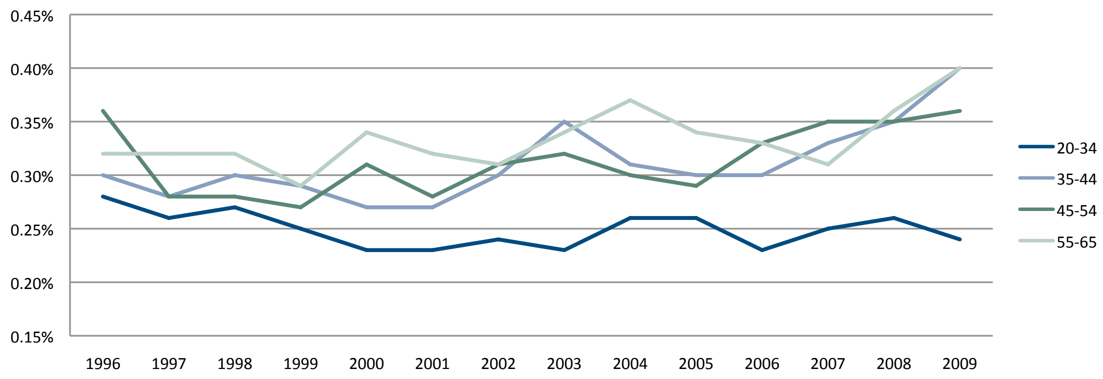
9 ibid

10 ibid

11 Wadhwa, V., Aggarwal, R., Holly, K., & Salkever, A. (2009, July). The Anatomy of an Entrepreneur. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation: http://www.kauffman.org/uploadedFiles/ResearchAndPolicy/TheStudyOfEntrepreneurship/Anatomy%20of%20Entre%20071309_FINAL.pdf

12 Stangler, D. (2009, June). The Coming Entrepreneurship Boom. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation: http://www.kauffman.org/uploadedFiles/the-coming-entrepreneurial-boom.pdf

Entrepreneurial Activity by Age



Source: Adapted from Kauffman Index of Entrepreneurial Activity, 1996-2009

there were twice as many entrepreneurs who started technology companies in their fifties than those who started technology companies in their early twenties.[13] The graph above shows entrepreneurial activity by age.

Gender

Entrepreneurs are more likely to be male than female. However, recent survey data show the rate of entrepreneurship activity decreasing for men and increasing for women (from 2007 to 2008, rate of entrepreneurship among men decreased from 12 percent to 9.8 percent, while it increased for women from 6.1 percent to 7.5 percent), demonstrating that this gap may be narrowing.[14] Reasons for differences in entrepreneurship rates between men and women may be due to access to finance, differences in credit scores, and other reasons. Other key differences between male and female entrepreneurs include:

- Men and women start different types of businesses. Women are nearly twice as likely to start a consumer-oriented business as men, whereas men are three times as likely to start businesses in high-technology sectors as women.[15] Men and women are equally likely to establish businesses in the services sector. Women entrepreneurs are also more often represented in retail and less represented in construction.[16]

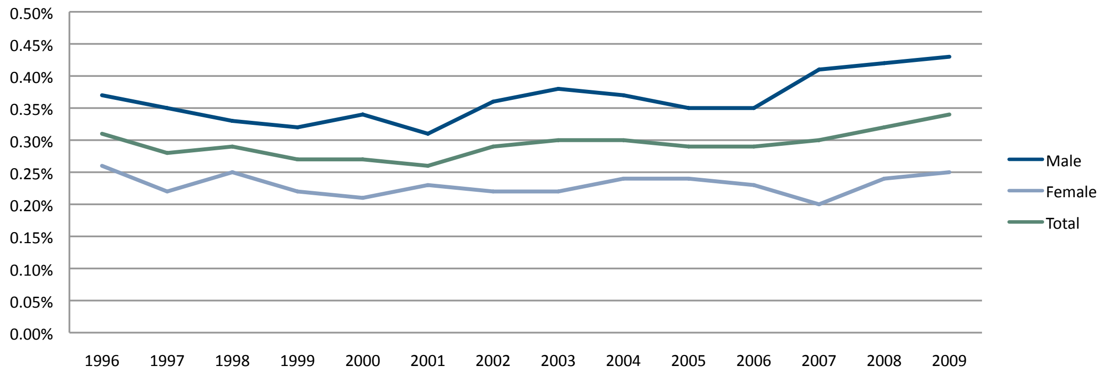
13 Wadhwa, V., Freeman, R., & Rissing, B. (2008, May). Education and Tech Entrepreneurship. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation: http://sites.kauffman.org/pdf/Education_Tech_Ent_042908.pdf

14 Global Entrepreneurship Monitor. (2009). What Entrepreneurs Are Up To. Retrieved July 15, 2010, from http://www3.babson.edu/ESHIP/research-publications/upload/GEM_2008_US_Executive_Report.pdf

15 ibid

16 Ewing Marion Kauffman Foundation. (2009, January). Characteristics of New Firms: A Comparison by Gender. Retrieved July 15, 2010, from http://www.kauffman.org/uploadedFiles/kfs_gender_020209.pdf

Entrepreneurial Activity by Gender



Source: Adapted from Kauffman Index of Entrepreneurial Activity, 1996-2009

- Men and women entrepreneurs are about the same average age (44 years).[17]
- In terms of educational attainment, women are more likely to have attended college (41.7 percent vs. 34.2 percent), though men are more likely to have graduated (31.6 percent vs. 27.9 percent)[18].
- Men tend to be more successful than women in terms of assets and revenues, profitability, employment, and survival rates.[19]

The graphic above shows entrepreneurial activity for men and women between 1996 and 2009.

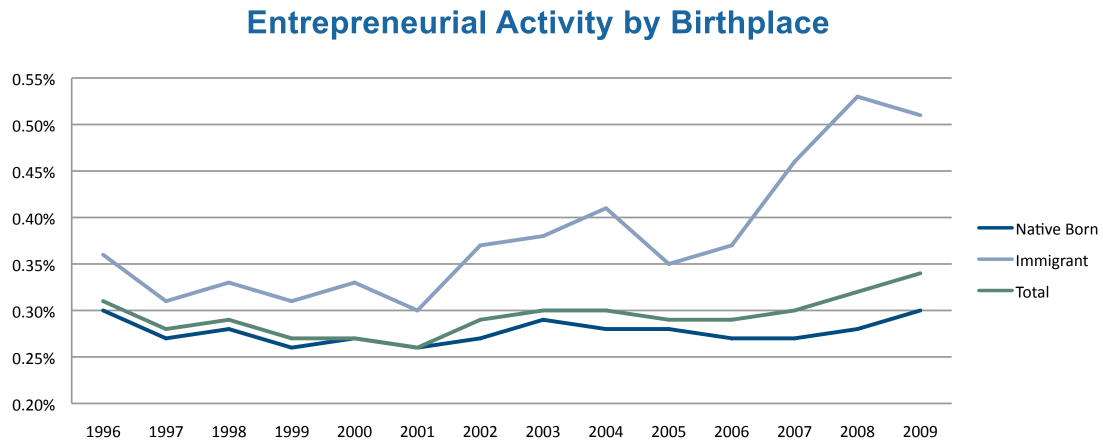
17 ibid
18 ibid
19 ibid

Race/Ethnicity

Wide variations exist in entrepreneurship by race. Latinos are almost twice as likely as African Americans to start a new business, according to the 2009 Kauffman Index for Entrepreneurial Activity (0.46 percent vs. 0.27 percent) . Whites and Asians fall somewhere in between (0.33 percent and 0.31 percent respectively). Entrepreneurial activity among African Americans had the highest rate of increase in 2009 at 22 percent.

Immigration

Generally speaking, in the U.S., immigrants are more likely to open a business than native-born populations, with the gap between the two groups widening in recent years (see



Source: Adapted from Kauffman Index of Entrepreneurial Activity, 1996-2009

the chart above for entrepreneurial activity by birthplace). Other noteworthy statistics about immigrant entrepreneurs are:

- Immigrants play a large role in creating new enterprises in America, particularly in the technology and engineering sector. Skilled immigrants founded 25 percent of all technology and engineering startups in the United States from 1995 to 2005.[20]
- These immigrants often came to the U.S. to study, receiving higher-education degrees in STEM-related disciplines and then deciding to stay in the country, founding companies an average of 13 years after their arrival in the U.S.[21]

Education

Entrepreneurs are generally well educated. In one Kauffman study, 95 percent of the respondents had earned bachelor's degrees, with 47 percent earning more advanced degrees.[22] Tech entrepreneurs with master's degrees, particularly MBAs, were the quickest to start businesses, followed closely by those with bachelor's degrees, and further by those with PhDs.

The graph below shows that while individuals with only high-school degrees have had high rates of entrepreneurship in the past, there is a rise in the level of entrepreneurship among

20 Wadhwa, V., Freeman, R., & Rissing, B. (2008, May). Education and Tech Entrepreneurship. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation: http://sites.kauffman.org/pdf/Education_Tech_Ent_042908.pdf

21 Wadhwa, V., Freeman, R., & Rissing, B. (2008, May). Education and Tech Entrepreneurship. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation: http://sites.kauffman.org/pdf/Education_Tech_Ent_042908.pdf ; Master of Engineering Management Program, Duke University; School of Information, U.C. Berkeley. (2007, January 4). America's New Immigrant Entrepreneurs. Retrieved July 15, 2010, from http://people.ischool.berkeley.edu/~anno/Papers/Americas_new_immigrant_entrepreneurs_I.pdf

22 Wadhwa, V., Aggarwal, R., Holly, K., & Salkever, A. (2009, July). The Anatomy of an Entrepreneur. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation http://www.kauffman.org/uploadedFiles/ResearchAndPolicy/TheStudyOfEntrepreneurship/Anatomy%20of%20Entre%20071309_FINAL.pdf

Total Early-Stage Education Levels by Year

Source: GEM U.S. 2003-2008 Adult Population Survey (APS)

highly educated individuals in recent years. This could be due to the recession, in which more educated workers are starting their own businesses after being laid off or unable to enter the labor market after graduating.[23]

Family Life and Marital Status

Most entrepreneurs have a family. Nearly 70 percent of respondents from a 2009 Kauffman study were married when they started their first business, and 5.2 percent were divorced, separated, or widowed.[24] In addition, nearly 60 percent had at least one child and 43.5 percent had two or more children when they began their first business.

Income

Historically, most entrepreneurs come from middle-class backgrounds (71.5 percent).[25] Socio-economic backgrounds, as defined by sociologist Dennis Gilbert, are primarily based on level of education and associated earnings[26]. Middle-class is defined as those with professional education, often even graduate degrees.[27] Those from upper-lower-class backgrounds comprise 21.8 percent of

23 Global Entrepreneurship Monitor. (2009). What Entrepreneurs Are Up To. Retrieved July 15, 2010, from http://www3.babson.edu/ESHIP/research-publications/upload/GEM_2008_US_Executive_Report.pdf

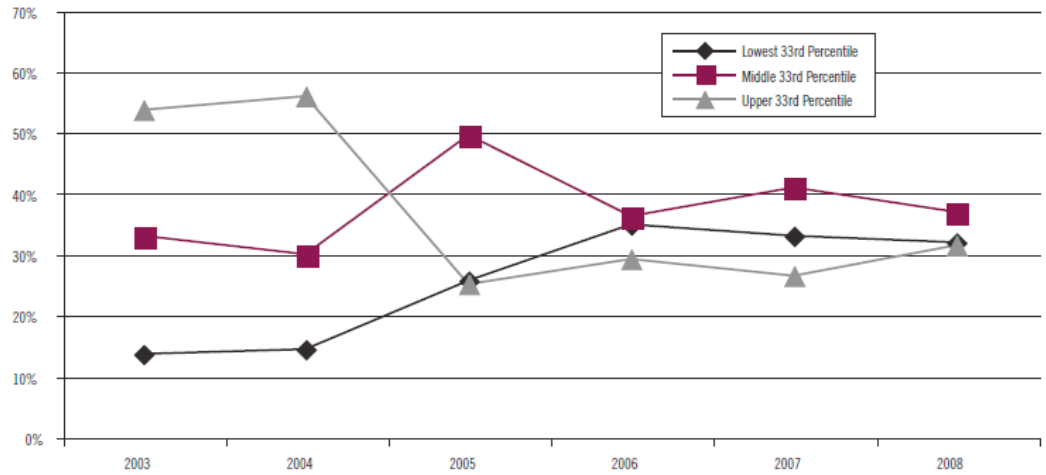
24 Wadhwa, V., Aggarwal, R., Holly, K., & Salkever, A. (2009, July). The Anatomy of an Entrepreneur. Retrieved July 15, 2010, from Ewing Marion Kauffman Foundation http://www.kauffman.org/uploadedFiles/ResearchAndPolicy/TheStudyOfEntrepreneurship/Anatomy%20of%20Entre%20071309_FINAL.pdf

25 ibid

26 Gilbert, D. (2002) The American Class Structure: In An Age of Growing Inequality. Belmont, CA

27 Categories include lower-lower class, upper-lower class, lower-middle class, upper-middle class, lower-upper class and upper-upper class.

Entrepreneurs by Income Segments (TEA)



Source: GEM U.S. 2003-2008 Adult Population Survey (APS)

entrepreneurs; this group also was the most interested in starting businesses, with 25 percent "extremely interested" versus an average of 18.5 percent across all groups.

The graph above shows that entrepreneurs in the highest one-third income bracket in the United States had the highest percentage of entrepreneurial activity, by a large margin, from 2003 to 2005.[28] However, in 2006, the entrepreneurial activity for the three income brackets began to converge, with this pattern continuing through 2008.

28 Global Entrepreneurship Monitor. (2009). What Entrepreneurs Are Up To. Retrieved July 15, 2010, from http://www3.babson.edu/ESHIP/research-publications/upload/GEM_2008_US_Executive_Report.pdf

CHAPTER III
The Entrepreneurship Environment

While different types of entrepreneurs need different resources, all require an entrepreneur-friendly environment to start up and grow. Thus, for entrepreneurs to emerge as a catalyzing economic force, economic developers must nurture the conditions that foster an entrepreneurial ecosystem. Proper legal, regulatory, financial and human capital assets, and the networks that connect them, are essential ingredients for a fertile entrepreneurial environment. By understanding these three conditions that create a positive climate for entrepreneurs, why they are important to entrepreneurship and how they function and interrelate, economic developers can use this framework to evaluate their communities' existing entrepreneurial capacity and guide actions to support increased economic activity. The purpose of this chapter is to lay out the infrastructure of an entrepreneurial environment. Additional materials in the handbook will provide guidance on how to create this entrepreneurial environment in your community.

Structures: The Physical and Regulatory Infrastructure for Entrepreneurship

Institutions that facilitate economic activity are a key asset for entrepreneurship. External structures, such as political, financial or legal systems as well as physical infrastructure, anchoring institutions and cultural norms directly influence an entrepreneur's ease of operation and chances for success. These forces set the tone for commercial activity by determining the rules of play within a community. Structural systems encourage entrepreneurship by reducing the barriers to entry and incentivizing innovation. An economic environment that effectively lowers the cost of doing business and encourages those who fail to start over will foster more entrepreneurial activity. Notably, the federal, state and local government all play essential roles creating the entrepreneurial environment.

At the federal level, the U.S. government has developed sophisticated systems to support budding entrepreneurs by making it easy (and relatively inexpensive) to start, fund, grow and sell a company. In one afternoon, an American citizen can incorporate a new business, obtain all necessary federal documentation from the IRS and enter into commercial transactions.[29] Specific activities of the federal government that enable entrepreneurship include:

- ***Anti-trust legislation*** prevents large companies from monopolizing a market, artificially fixing prices or engaging in exclusive arrangements that stymie competition.
- ***Liberal bankruptcy rules*** minimize the risks associated with failure by forgiving debt and providing individuals the chance to start afresh.
- ***Intellectual property protections***, such as patent laws, give an inventor proprietary rights over the use of, and profits generated by, his innovation.
- ***Open trade and tariff-free policies*** provide equal opportunities for businesses of all sizes to enter the market and operate at their optimal level.
- ***Flexible labor laws*** enable businesses to hire employees without fear that they will be unable to release employees if no longer needed.

Many state and local policies seek to further reduce entry barriers for entrepreneurs. By lowering the costs of doing business, particularly during the startup phase, more individuals are likely to pursue entrepreneurship as a viable employment activity. At the state and local level, specific actions that promote entrepreneurship include:

- ***Pro-business tax structure*** that provides deductions, credits or lower rates to help new and promising companies get off the ground.
- ***Streamlined, simple permitting processes*** that enable businesses to obtain, understand and file all necessary documentation in a single trip or using online submissions.
- ***Reasonable, transparent regulations*** that ease general business activities, such as applying for zoning variances, approvals from city officials and meeting licensure requirements.
- ***Statewide unemployment benefits*** that provide a social safety net to cushion the blow from failed ventures.
- ***Physical infrastructure investments,*** maintenance and upgrades that provide that capacity for modern-day business activities.

29 Schramm, Carl J. *The Entrepreneurial Imperative.* HarperCollins. New York 2006.

In addition to political and legal structures, financial institutions are key to supporting (or inhibiting) entrepreneurial activity. Access to the right types and amounts of capital, at the right times, directly relates to the successful operation of a business. It is commonly believed that entrepreneurs seek and receive a majority of their initial capital as equity from venture capitalists, angel investors or friends and family. In reality, individual resources, such as savings or personal debt from bank loans and credit cards, finance the majority of new business ventures. After startup, new firms often reinvest initial profits to fund growth until reaching a point where they can leverage a successful track record for external equity investments needed to fuel expansion. This reality further supports the need for institutions to reduce barriers to entry and to incentivize innovation. Financing needs and strategies for different types of entrepreneurs will be examined in later sections.

Talent: Human Capital Assets for Entrepreneurship

"Talent" describes skilled individuals who possess technical, managerial and innovative capabilities and knowledge. It primarily includes, but is not limited to, individuals who have attained higher levels of education. It is, though, a "key intermediate variable in attracting high-technology industries and generating higher regional incomes"[30].

Talent is essential to building an entrepreneurial ecosystem because it offers the following assets: 1) a pool of potential entrepreneurs; 2) human capital to provide skills to entrepreneurial companies; and 3) a source for ideas and innovations that provides the foundation of an entrepreneurial climate.

Communities strengthen their talent pool by:

- Providing a welcoming environment for all kinds of people (such as those of different racial, ethnic, religious, social and national backgrounds)
- Integrating entrepreneurship training into secondary and post-secondary education systems
- Creating strong elementary and secondary schools, especially (but not limited to) STEM disciplines (science, technology, engineering and math)
- Using post-secondary assets to attract and retain students
- Recruiting skilled workers

30 Florida, Richard. *The Economic Geography of Talent.* Annals of the Association of American Geographers, Vol. 92, No. 4 (Dec., 2002), pp. 743-755

- Finding innovative ways to deepen the existing talent base
- Building local amenities to attract and retain talent
- Building social networks to embed talent in the social, economic and political life of the community

An entrepreneurial environment is one that invests in, and nurtures, its human capital assets, as they are the source of entrepreneurs and the engines of entrepreneurial firms.

Networks: The Relationships That Bring People and Resources Together

Networks are the formal and informal links that exist between individuals, firms and institutions. Partnerships between individuals and firms, among similar firms or across industries, provide access to peers and peer-based learning, financial resources for start-ups, growth and operational support, knowledge, services and other business resources that leads to more innovation. Networks form at a variety of scales between key players of all sizes and functions.

Entrepreneurial communities possess the following types of networks.

- ***Peer networks***, the relationships that form between individuals, the base level for brainstorming, idea generation, everyday business advice, and overall support. Entrepreneurs tend to learn best from other entrepreneurs.
- ***Conduits to commercialization*** connect entrepreneurs with new ideas to institutions and resources that can bring those innovations to market. Places such as universities, federal labs, R&D centers provide an environment for product refinement while also drawing essential resources needed for commercialization such as finance, intellectual property services or other technical assistance.
- ***Supply and service chains*** are regularly used by businesses as they seek resources, services (e.g., accounting, legal) and professional assistance externally. A dense network of cooperating businesses enables each firm to focus on what it does best and draws needed resources from complementary sources.

- ***Public sector support*** comes from the ease and ability of entrepreneurs to utilize public resources such as SBA loans, SBIR grants or SCORE consultants, in addition to opportunities for government contracting work and public-private partnerships.
- ***Financial resources*** for entrepreneurs can come from a variety of sources, depending on the nature and size of the venture. Starting with personal savings, debt and bootstrapping, entrepreneurs can access networks such as angel investors, venture capital and friends and family, for additional capital needs.

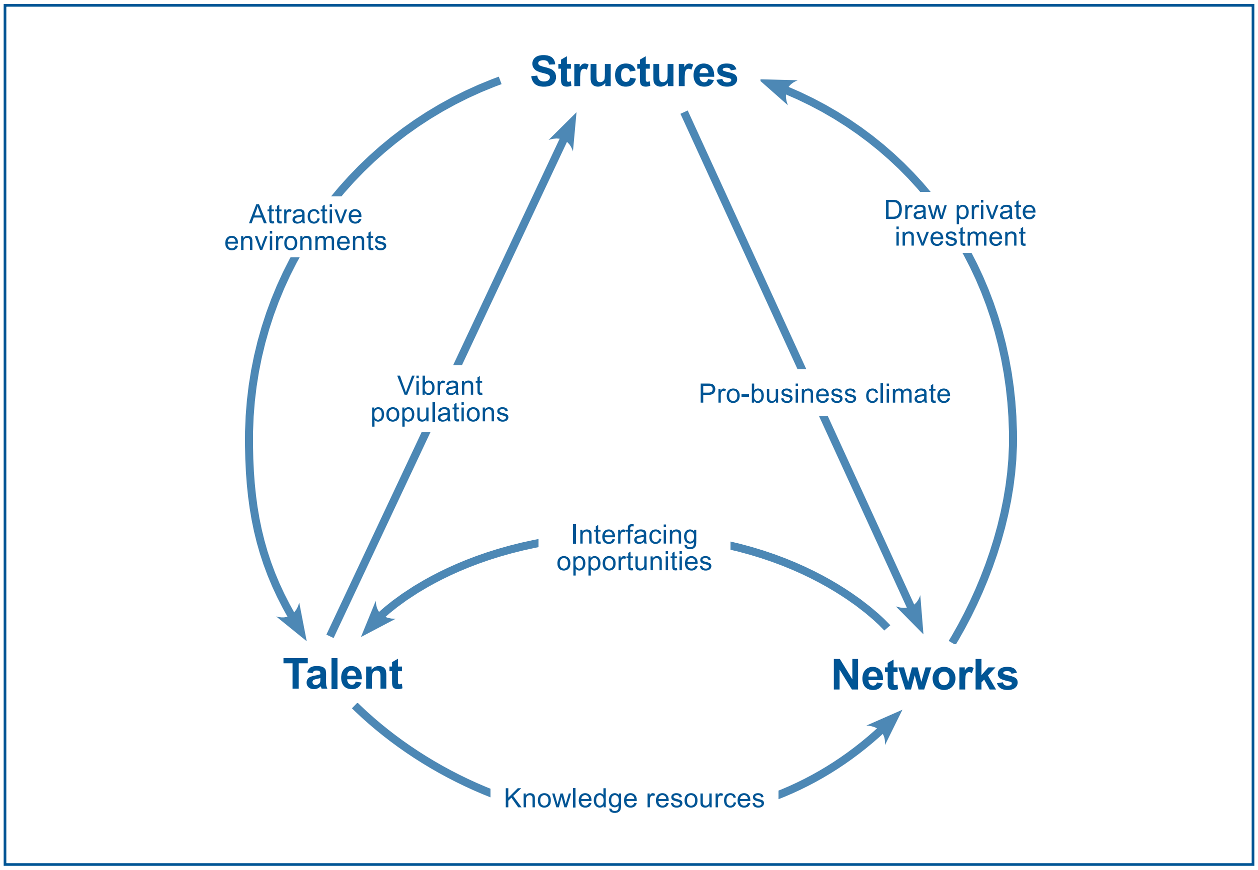
The quality of a network can be measured in its ability to connect resources across industries and people. Interconnected networks can make a local community less susceptible to volatility in the global economy. A community with dense networks that support entrepreneurship will be better equipped to respond to the constant, unpredictable churn of business creation and closings that occur from rapid innovation and globalization.

In fact, most entrepreneurship support organizations focus on building these networks in their communities because they are so essential to supporting both the success of individual entrepreneurs and providing the foundation of a dynamic entrepreneurial environment. Such networks are dynamic, flexible, and open to new people and ideas. They provide supportive resources and services to start-ups and accept failure as an unfortunate but not stigmatizing event. Later, the Handbook will discuss how to create and sustain these types of networks.

Putting It All Together

The conditions that foster entrepreneurship - talent, structure and networks - do not operate in isolation. These community assets operate most effectively when activity is coordinated among all three. The diagram below illustrates the interconnected nature of these conditions.

The Entrepreneurial Ecosystem



The role of the economic developer is to ensure that all the pieces are in place and to serve as the convener who creates and connects the resources needed throughout all elements of the entrepreneurial environment.

By increasing the capacity for people, businesses and institutions to engage in entrepreneurship, economic developers can unlock the potential within their communities for sustained economic growth.

Looking Ahead

Over the next few months, the Handbook will be released, which builds on the foundation blocks of entrepreneurship discussed in this Primer, will be released. It will provide guidance to economic development professionals on how to foster an entrepreneurial environment in your community. Case study examples explore entrepreneurial firms as well as economic development programs and organizations that support those firms. Further, a Toolkit will also be included in the Handbook that will provide ready-to-use tools for ED professionals on developing entrepreneurship.

Please visit the IEDC website, **www.iedconline.org**, to learn about the launch of the remainder of the handbook and download your copy.